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A diabolical start to 2016 / China in dire straits / IMF, WB official stories / Oil in more crisis / 6 geopolitical hotspots

As far as the return to trading after the start of the year…it has been diabolical…already USD2.5 trillion has been wiped from global equities and China appears even more on the brink of a major downturn… Brent has dropped over the cliff and junk bond holders look set to cause a rout in the global derivatives casino…

The stories are as follows…

http://www.telegraph.co.uk/finance/china-business/12088033/Capital-flight-pushes-China-to-the-brink-of-devaluation.html

and

http://www.telegraph.co.uk/finance/markets/12087973/China-currency-war-fears-wipe-2.6-trillion-off-global-markets-in-four-days.html

and

http://www.telegraph.co.uk/finance/economics/12086754/Is-China-really-devaluing-its-currency.html

China in dire straits

Does China really have a share market (that isn't tied to the CCP apron strings) anymore?...

http://fortune.com/2016/01/04/oil-prices-saudi-arabia-iran/

What does the drop in Chinese rail freight tell us?

http://www.reuters.com/article/china-transportation-railway-freight-idUSL8N14P05I20160105

Rail freight and electricity usage suggest the country is in recession.

To summarise my global assessment, we start 2016 with a 55% chance of global financial meltdown before year end. This is unchanged since my last 2015 estimate because the factors at work still remain the same…

1. A substantial global economy exhibiting wealth in a "business as usual" kind of pose…
2. Threatened by resource constraints that no-one is prepared to talk about and

3. Massive and rapidly growing debt in many countries and regions.
4. However, the BIS goons still have the ability to get global banks to cut interest rates into negative territory and print money like there is no tomorrow.

The impact of any further financial engineering could prove disastrous and the head winds against the global economy are just strengthening as politicians and central bankers run out of options. But all that means a disaster by end 2017 becomes cumulative and could look something like 75% probable.

IMF, WB official stories

Clearly the World Bank doesn't agree with me, but they are staffed by a heady mix of economists and political lackeys…from Seeking Alpha…

"**According to the World Bank**, the global economy will sputter along this year as China's slowdown prolongs a commodity slump and contractions endure in Brazil and Russia. As a result, the international institution cut its forecasts for the third straight year, predicting 2016 growth to fall by 0.4 percentage point to 2.9%. With regards to the U.S., the World Bank decreased its 2016 prospects to 2.7%, down from 2.8 percent from June, citing the dampening effect on exports from the surging dollar."

What does the IMF think? From Seeking Alpha...

"**Global economic growth will** be "disappointing and uneven" next year, the head of the International Monetary Fund said in a guest article for German newspaper *Handelsblatt*. "In many countries the financial sector still has weaknesses and in emerging markets the financial risks are increasing," IMF Managing Director Christine Lagarde declared. She added that low productivity, aging populations, a decline in raw materials, and the effects of financial crises were putting the brakes on a global expansion."

Oil in more crisis

http://www.bloomberg.com/news/articles/2016-01-06/world-s-cheapest-crude-hits-record-low-as-oil-slump-deepens

But this sets us up for either global depression (now quite probable), or if that doesn't eventuate then the oil prices will bounce much higher....perhaps to "nose-bleed" higher. With the news today of IS attacking Libyan oil storage tanks and trouble between Iran and the Saudis escalating, there is also a geopolitical risk that oil prices could become hostage to the same forces that took them to USD146/bbl in 2008.

http://fortune.com/2016/01/04/oil-prices-saudi-arabia-iran/

But right now that is not as high a risk as the impact of recession – all oil producers must sell all they can at low prices in order to "make ends meet".

People keep asking me why the petrol price drop isn't fully reflected in the drop in the oil price. The simple reason is that the value of the NZD and AUD has fallen vis a vis the rising US dollar. But at the current oil price, the prices will soon be falling again for petrol and diesel. This will also (in the near term) make it much harder for electric cars and other alternatives to ICEs (internal combustion engines), to make traction.

As a result, COP21 and Paris 2015, already seems to be a "dead rubber".

Iron ore and other minerals are at almost historic lows, and (with thanks to Peter) this comes with the disaster for the shipping companies and the folk who build ships, trucks and earthmoving equipment.

http://www.zerohedge.com/news/2016-01-07/nowhere-hide-baltic-fried-index-careens-fresh-record-low

What does gold and silver tell us about economic risk?

Gold is up about USD30/oz and silver by about USD1.00/oz since last year. Not decisive but it indicates that risk is moving up. Prices on COMEX are USD1,103.60/oz for gold and USD14.24/oz for silver. These risk indicators will be worth watching.

6 geopolitical hotspots

The flashpoints that clearly bear watching are:

1. The Middle East and North Africa conflicts. Worst of all the divide between Sunni and Shia and presently the proxy wars they wage within Iraq, Syria, Yemen, Libya and Afghanistan...with IS batting on the Sunni side and Russia and USA standing in opposing camps.
2. The drama of European migration by Muslim dominated displaced persons and the stress on the EU. Already the barriers are going up and the treatment of females by misogynistic Muslim males is drawing attention to the clash of cultures and stimulating the rise of extreme right and left political parties. Massive payments to Turkey have not slowed migration.
3. The divide between the EU states and Russia is focussed on countries like Poland, the Baltic States, Ukraine and a few smaller ex Soviet Bloc states.
4. The South China Sea, where China has set itself to dominate South Korea, Japan, Philippines, Vietnam and of course, Taiwan.
5. The North Korean rogue state.

6. China is in economic trouble and their efforts to solve their internal issues has led to them “disappearing “ wealthy individuals and dissidents and also moving to confront the USA in partnership with Russia.

The formerly “unipolar” world since the collapse of the USSR in 1989 is now looking less of an American Fiefdom. Clearly 2016 has opened with a global arms race in full swing.